



U.S. Department of the Interior
Office of Inspector General

SURVEY REPORT

**WATER REUSE PROGRAM GRANTS,
BUREAU OF RECLAMATION**

**REPORT NO. 97-I-874
JUNE 1997**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

JUN 13 1997

MEMORANDUM

TO: The Secretary

FROM: Wilma A. Lewis
Inspector General

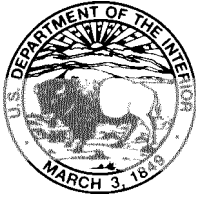
SUBJECT SUMMARY: Final Survey Report for Your Information - "Water Reuse Program Grants, Bureau of Reclamation" (No. 97-I-874)

Attached for your information is a copy of the subject final report. The objective of the audit was to determine whether the Bureau of Reclamation adequately monitored the costs claimed for reimbursement under grants awarded to state and local entities for wastewater reclamation and reuse projects

The Bureau did not adequately monitor the costs claimed by grantees for four construction projects under 10 grant agreements. The Bureau's 1994 "Procedures for Reviewing Cost-Share Agreements" requires that Bureau accounting and technical personnel audit or review grant agreements annually to ensure grantee compliance with the terms of the agreements, which, in this instance, included compliance with the Reclamation Wastewater and Groundwater Study and Facilities Act. Specifically, we found that the Bureau did not: (1) perform the required annual reviews but instead relied primarily on the Single Audit Act process and on reviews of summaries of project costs submitted by the grantees or (2) follow up on conditions identified in the single audit reports. In addition, the information required in the summary billings was not sufficient to allow adequate monitoring of the costs claimed. As a result, the Bureau did not have assurance that Federal reimbursements of about \$25 million through fiscal year 1995 were only for costs that were allowable under the terms of the grant agreements. Without improved monitoring, the Bureau will not have assurance that the remaining \$366 million Federal share of construction costs for projects authorized through September 30, 1995, will be allowable under the agreements. The Bureau agreed with our two recommendations to correct these conditions.

If you have any questions concerning this matter, please contact me at (202) 208-5745 or Mr. Robert J. Williams, Assistant Inspector General for Audits, at (202) 208-4252.

Attachment



United States Department of the Interior

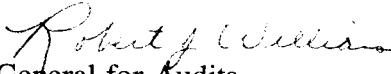
OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

JUN 13 1997

SURVEY REPORT

Memorandum

To: Assistant Secretary for Water and Science

From: Robert J. Williams 
Assistant Inspector General for Audits

Subject: Survey Report on Water Reuse Program Grants, Bureau of Reclamation
(No. 97-I-874)

INTRODUCTION

This report presents the results of our review of the Bureau of Reclamation's grants for water reuse program activities. The objective of our review was to determine whether the Bureau adequately monitored the costs claimed for reimbursement under grants awarded to state and local entities for wastewater reclamation and reuse projects.

BACKGROUND

The Bureau's water reuse program was authorized in the Reclamation Wastewater and Groundwater Study and Facilities Act,¹ which directed the Bureau to undertake a program to identify opportunities for reclaiming and reusing municipal, industrial, domestic, and agricultural wastewater in 17 Western States and to participate with grantees in planning, designing, and constructing five specific wastewater reclamation and reuse projects.² Under the Act, the Federal share of costs for these five construction projects may not exceed 25 percent of the total costs associated with planning, designing, and constructing the facilities. Federal participation in the cost of operating and maintaining these project facilities is specifically prohibited by the Act. The Bureau funded its participation in these projects through grant agreements and was not directly involved in the physical

¹Title 16 of the Reclamation Projects Authorization and Adjustment Act of 1992 (Public Law 102-575).

²The five wastewater reclamation and reuse projects are: (1) the San Jose Area Water Reclamation and Reuse Program; (2) the Phoenix Metropolitan Water Reclamation Program; (3) the San Diego Area Water Reclamation Program; (4) the Los Angeles Area Water Reclamation and Reuse Project; and (5) the San Gabriel Basin Demonstration Project.

construction of the four projects reviewed.³ The Bureau's 1994 "Procedures for Reviewing Cost-Share Agreements" requires that cost-share agreements, including grants applicable to the water reuse program, be audited or reviewed annually.

As of September 1995, the Bureau had established 10 grant agreements totaling an estimated \$544 million, with the Federal share estimated at \$135 million, for the four construction projects that we reviewed. For fiscal years 1994 and 1995, the Bureau reimbursed grantees approximately \$25 million and incurred administrative costs of about \$378,000, for total Federal expenditures of \$25.4 million (see Appendix 1). According to information in the Bureau's 1997 budget justification, the projected cost of these four projects totaled about \$1.6 billion, of which the estimated Federal share was about \$391 million (see Appendix 2). In addition, on October 9, 1996, an amendment to the Act authorized 15 additional projects totaling about \$550 million, with a Federal share estimated at up to \$115 million. However, the Bureau has been appropriated only about \$30 million for fiscal years 1994 and 1995.

SCOPE OF SURVEY

Our fieldwork was performed from March through July 1996 and focused on a review of program grant activities that occurred during fiscal years 1994 and 1995 at the Bureau's Mid-Pacific Regional Office in Sacramento, California; the Lower Colorado Regional Office in Boulder City, Nevada; the Phoenix Area Office in Phoenix, Arizona; and the Southern California Area Office in Temecula, California, which has oversight responsibility for 9 of the 10 grant agreements awarded through fiscal year 1995. Our initial audit objective was to determine whether the Bureau and the grantees complied with the terms and conditions of their funding agreements. As established under the grant agreements, the Bureau's principal responsibility was to provide reimbursement of eligible projects costs. Our preliminary survey work disclosed that the Bureau was not adequately monitoring grant agreements and that the summary billing information reported to the Bureau was insufficient to allow a determination of whether the Bureau or grantees complied with the agreements' cost eligibility requirements. Accordingly, we revised our objective to determine the adequacy of the Bureau's procedures for monitoring the grantees' compliance with the agreements in an effort to strengthen the Bureau's program controls over project cost reimbursements.

To meet our revised objective, we reviewed the Reclamation Wastewater and Groundwater Study and Facilities Act and its related legislative history, Federal regulations and Bureau guidance on cost-share agreements, the 10 grant agreements awarded through fiscal year 1995, and the grantees' requests for reimbursements and related documentation. In addition, we interviewed Bureau program and budget officials and officials from the Solicitor's Pacific Southwest Regional Office in Sacramento and the

³Grant agreements are agreements with state or local entities in which the Bureau provides funds but is not substantially involved in carrying out the specified program or activity. As of July 1996, no grant agreements had been established for the Phoenix Metropolitan Water Reclamation Program.

Solicitor's Field Office in Phoenix to confirm our understanding of the Act and applicable regulations. We also interviewed the Director of the Bureau's Program Analysis Office in Denver, Colorado, to clarify program policy issues.

Our survey was made in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary to accomplish our revised objective. In planning our survey, we reviewed the Department of the Interior's Annual Statement and Report, which is required by the Federal Managers' Financial Integrity Act, for fiscal years 1992 through 1995 and determined that the Department did not report any material weaknesses related to the objective and scope of our survey.

We also evaluated the Bureau's system of internal controls related to its water reuse program to the extent we considered necessary. We found that the Bureau could strengthen internal controls in its monitoring of grant agreements. This weakness and the recommended corrective actions are discussed in the Results of Survey section of this report. The recommendations, if implemented, should improve the internal controls in this area.

PRIOR AUDIT COVERAGE

We identified two Office of Inspector General audit reports and one General Accounting Office audit report that addressed issues relevant to monitoring the participation of non-Federal entities in Federal programs or projects. Overall, the reports concluded that Federal organizations could not merely rely on data reported by participating entities and that additional oversight was needed to ensure compliance with legislative requirements and performance of program goals and objectives.

The Office of Inspector General's two reports that addressed monitoring issues are as follows :

- "Grants for Rural Water Project, Great Plains Region, Bureau of Reclamation" (No. 95-I-947), issued in May 1995, reported that the Great Plains Region needed to improve its processes for monitoring rural water system project costs to preclude funding activities that were ineligible for Federal reimbursement. The report stated that while the Region, in accordance with Office of Management and Budget Circular-A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions," required a grantee to be audited, neither the independent auditors nor the Regional personnel who reviewed the costs charged by the grantee were familiar with restrictions on grantee administrative costs imposed by another Federal agency. Therefore, neither the auditors nor the Bureau took exception to ineligible administrative costs charged by four projects, including over \$7 million charged by one project over a 9-year period. The report did not contain any recommendations because the grantees had incurred costs sufficient to offset the inappropriate charges. However, the report suggested that Regional management develop

procedures to ensure adequate training in applicable laws, regulations, and guidelines for responsible individuals.

- “Distribution Facilities, Central Arizona Project, Bureau of Reclamation” (No. 93-I-1271), issued in July 1993, reported that the Bureau did not ensure that water districts met cost-share requirements related to the construction of water distribution systems on the Central Arizona Project. According to the report, this condition occurred because the Bureau had not: (1) established sufficient criteria and procedures for districts to determine the types of costs that could be claimed for cost-share purposes and for Bureau personnel to determine whether claimed costs were valid and necessary to construct the water distribution facilities and (2) performed adequate reviews of the districts’ reported contributions to ensure compliance with the cost-share requirements. Specifically, the report identified costs of about \$8.9 million claimed as district contributions that were unallowable for cost-share purposes. Reducing the claimed contributions by the \$8.9 million resulted in the districts not meeting their cost-share requirements by about \$3.7 million. The report recommended that the Bureau develop criteria for the types of costs that could be claimed for cost-share purposes and procedures for verifying the costs claimed by the districts. In a December 21, 1994, memorandum to the Office of Financial Management, the Bureau reported that it had developed criteria and procedures to review cost-share agreements on Bureau projects and, accordingly, considered the recommendations implemented. However, during our current review, we found that Bureau program personnel either were not aware of or had not implemented these criteria and procedures in administering the grant agreements for wastewater reclamation and reuse projects. Instead, Bureau personnel said that they relied primarily on the single audit process to ensure grantee compliance with the agreements.

The General Accounting Office, in June 1994, issued the report “Single Audit: Refinements Can Improve Usefulness” (Report No. GAO/AIMD-94-133). The report stated that while local government officials credited the single audit process with improving their financial management practices, a number of issues still “burden[ed] the single audit process” and “hinder[ed] the usefulness of its reports.” Specifically, the report stated that: (1) the selection of programs for audit based on 1984 dollar thresholds resulted in “many programs considered highly vulnerable to fraud, waste, and abuse” not being subject to audit; (2) important findings were not highlighted; (3) the 13-month reporting time frame limited the report’s usefulness; (4) entities were not required to report on the adequacy of their internal control structures; and (5) results were not summarized to allow program managers to easily determine the need for follow-on audits or additional program oversight. Subsequently, in 1996, the Congress amended the Single Audit Act⁴ to address some of these concerns, although the amended Act still permits the audit to exclude from review Federal assistance that falls below specified

⁴The Single Audit Act Amendments of 1996 (Public Law 104-156), which are effective for fiscal years beginning after June 30, 1996, included the following: (1) raising the audit threshold; (2) providing for a risk-based approach for selecting programs for audit; and (3) shortening the reporting time frame from 13 to 9 months for fiscal years beginning after June 30, 1998.

dollar thresholds. However, during our current review, we found that the Bureau had not followed up on deficiencies identified by the single audit process and used the results in planning additional reviews.

RESULTS OF SURVEY

The Bureau of Reclamation did not adequately monitor the costs claimed by grantees for four construction projects under 10 grant agreements. The Bureau's 1994 "Procedures for Reviewing Cost-Share Agreements" requires that Bureau accounting and technical personnel audit or review grant agreements annually to ensure grantee compliance with the terms of the agreements, which, in this instance, included compliance with the Reclamation Wastewater and Groundwater Study and Facilities Act. Bureau personnel said that they did not perform the required annual reviews but instead relied primarily on the Single Audit Act process and on reviews of summaries of project costs submitted by the grantees. However, the Bureau did not follow up on conditions identified in the single audit reports, and the information required in the summary billings was not sufficient to allow adequate monitoring. As a result, the Bureau did not have assurance that Federal reimbursements of about \$25 million through fiscal year 1995 were only for costs that were allowable under the terms of the grant agreements. Without improved monitoring, the Bureau will not have assurance that the remaining \$366 million Federal share of construction costs for projects authorized through September 30, 1995, will be allowable under the agreements.

Bureau Procedures

According to a December 6, 1994, Bureau memorandum, the 1994 procedures were developed by the Bureau's Program Analysis Office at the request of the Lower Colorado Region because of the "potential for Reclamationwide application." Based on discussions with the Director of the Program Analysis Office, we determined that the procedures were not intended to be optional but were mandatory for grant agreements negotiated under the Reclamation Wastewater and Groundwater Study and Facilities Act. The procedures require: (1) that the grant agreements be audited or reviewed annually by Bureau accounting and technical personnel and (2) that the audit or review contain a program outlining the steps to ensure grantee compliance with the agreements and with the Act and be properly documented to support the conclusions reached. Under the Act, Federal participation cannot exceed 25 percent of the total costs associated with planning, designing, and constructing authorized projects, exclusive of operation and maintenance costs, which are specifically prohibited. The 10 agreements incorporated the percentage limitation on Federal expenditures and the provisions of Office of Management and Budget Circular A-87, "Cost Principles for State and Local Governments," which established the principles for determining the allowability of costs for Federal reimbursement. However, 9 of the 10 agreements did not specifically identify operation and maintenance costs as ineligible costs, although such costs were implicitly excluded by the agreements' reference to the Act.

Bureau officials informed us that the required reviews were not performed because: (1) Mid-Pacific Regional program officials were not aware of the procedures and (2) Lower Colorado Regional officials believed that the procedures were “optional” and that the Region was precluded from performing the annual reviews because grantees were subject to annual audits under the Single Audit Act. Lower Colorado Regional officials also stated that they did not have sufficient staff to perform the reviews. In addition, Bureau officials in both regions stated that they believed that relying on the single audit process and on reviews of billings submitted by the grantees was sufficient to adequately monitor the costs claimed under the grant agreements.

Bureau Monitoring

We found that the Bureau did not effectively use single audits to facilitate its monitoring of project costs and that billings submitted by grantees were not sufficiently detailed to permit an evaluation of the costs claimed for reimbursement.

Single Audit Process. Personnel in the Mid-Pacific and Lower Colorado Regions stated that they primarily used the single audit process to monitor the agreements. We acknowledge that the Single Audit Act was enacted, in part, “to improve the financial management of State and local governments with respect to Federal financial assistance programs and . . . to promote the efficient and effective use of audit resources.” However, the Act does not preclude additional audits. Sections 7503 (b) and (e) of the Act state that “a Federal agency shall conduct any additional audits which are necessary to carry out its responsibilities under Federal law or regulations . . . [including] program results audits, and program evaluations. ” Section 7503 also states that “to avoid duplication of effort, ” Federal agencies “shall rely” on and use the information obtained under the single audit process to “plan and conduct . . . [their] own audits. ” As such, we believe that the single audit process, while an important oversight tool, does not provide a comprehensive review of grants or programs and should not be viewed as a substitute for management oversight and program review. As indicated in the General Accounting Office’s report (No. GAO/AFMD-94-133), Federal grants may not be considered major programs⁵ and therefore may not be audited if they fall below prescribed dollar thresholds. In addition, under generally accepted auditing standards, reportable

⁵To be considered a major program under the Single Audit Act of 1984 (Public Law 98-502), a program had to meet dollar thresholds, which varied depending on the non-Federal entity’s total Federal expenditures for all programs. Under the Single Audit Act amendments of 1996, however, a Federal program may be selected based on the auditor’s assessment of risk. For example, a higher risk is present when the program is in its initial and final years, when there are large Federal expenditures, or when deficiencies have been identified. However, these amendments were not applicable to fiscal years 1994 and 1995, the period of our audit.

condition⁶ may be presented to the grantee either orally or in management letters that are incorporated into the single audit report only by reference. Thus the grantor may not be able to identify deficiencies other than material weaknesses⁷ without additional oversight or monitoring.

In this regard, we reviewed the single audit report for fiscal year 1995 for the grantee in the Mid-Pacific Region and three single audit reports for fiscal years 1994 and 1995 for two grantees in the Lower Colorado Region. We found that: (1) the Mid-Pacific Region's project was not reviewed as part of the grantee's single audit for fiscal year 1995 because the Federal share of project expenditures did not meet the audit threshold required to be considered a major program under the Single Audit Act and (2) the Lower Colorado Region had not followed up on issues identified by the single audit process that could affect the costs claimed for reimbursement. Specifically:

- For the Mid-Pacific Region's project to have been considered a major program under the Act, the 1995 Federal share of project expenditures would have had to have exceeded about \$780,000. Although Federal funds expended for this project in 1995 totaled nearly \$600,000, the project was not audited under provisions of the Act. In addition, the Region had not requested and did not have a copy of the single audit report for fiscal year 1995.

- The 1994 single audit report of one grantee whose project was administered by the Lower Colorado Region identified a reportable condition applicable to the grantee's "job cost" system that could affect its ability to accumulate project operation and maintenance costs. This same deficiency, although not identified as a reportable condition, was reported in the auditor's fiscal year 1995 management letter to the grantee and was referred to in the 1995 single audit report. However, Lower Colorado Regional personnel had not followed up on the status of the condition identified by the auditors in 1994 and 1995, including requesting a copy of the management letter, to determine whether the grantee had established sufficient controls to ensure that operation and maintenance costs were not and would not be billed.

⁶Statement on Accounting Standards No. 60, issued by the American Institute of Certified Public Accountants, effective January 1989, states that reportable conditions are "matters coming to the auditor's attention that, in his [or her] judgment, should be communicated to the audit committee because they represent significant deficiencies in the design or operation of the internal control structure, which could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements." The Standard further states, "Such deficiencies may involve aspects of the internal control structure elements of (a) the control environment, (b) the accounting system, or (c) control procedures."

⁷Standard 60 also states that material weaknesses are "reportable conditions in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk" that noncompliance with laws and regulations material to a Federal financial assistance program "may occur and not be detected within a timely period by employees" in the normal performance of their duties.

- For the other grantee whose project was administered by the Lower Colorado Region, the 1995 single audit report referenced a 1995 management letter that reported a deficiency in the grantee's "job cost" system that could affect the grantee's ability to identify operation and maintenance costs. Again, Regional personnel did not request a copy of the management letter and follow up to determine whether the grantee had established sufficient controls to ensure that operation and maintenance costs were not and would not be billed. A Regional accountant reported that followup would be initiated only if the single audit report had identified a material weakness.

We acknowledge that the Bureau has limited staff available to follow up on the single audit reports and perform the reviews required under the 1994 procedures. However, we believe that the Bureau could perform its annual reviews with existing staff by effectively building on the single audit process. Specifically, the Bureau should: (1) obtain and review single audit reports and management letters for project grantees; (2) follow up on identified material weaknesses, reportable conditions, and other relevant internal control deficiencies; and (3) determine which projects were not reviewed as part of the single audit process and review these projects accordingly. For example, had the Bureau chosen to use the single audit reports received for two grantees in the Lower Colorado Region as the foundation for other audits, it would have reviewed about 74 percent of the \$25 million of Federal reimbursements through September 30, 1995. Also, had Mid-Pacific Regional officials requested and obtained a copy of the single audit report for their project, they would have determined that the project was not considered a major program and was therefore not specifically reviewed by the audit.

Billings. The Lower Colorado Region's Southern California Area Office requested summary billings from the grantees to substantiate amounts requested for reimbursement. However, based on our review of the summary billings for three construction projects, we determined that the billings were intended as only a basis for payment and did not provide sufficient detail to allow the Bureau to monitor the eligibility of costs claimed for reimbursement. However, the Area Office made two payments totaling about \$3.7 million to one grantee based on a summary billing that consisted of a one-sentence certification in a July 1994 letter from the grantee's general manager, which stated, "I hereby certify that [the] . . . District has expended \$16,918,517 through May 30, 1994, on the . . . Recycling Program." The summary billings are not a means to monitor the eligibility of costs for reimbursement. Instead, we believe that effective implementation of the Bureau's 1994 procedures will provide adequate assurance that costs incurred by grantees are eligible for Federal reimbursement.

Recommendations

We recommend that the Commissioner, Bureau of Reclamation, direct appropriate Bureau officials to:

1. Implement the 1994 "Procedures for Reviewing Cost-Share Agreements."

2. Follow up on the single audit act process by:

- Obtaining copies of single audit reports from project grantees and following up on any identified reportable conditions or material weaknesses.
- Requesting copies of management letters and information on deficiencies communicated orally to the grantees.
- Obtaining information on corrective actions planned or taken.

Bureau of Reclamation Response and Office of Inspector General Reply

The April 16, 1997, response (Appendix 3) to our draft report from the Commissioner, Bureau of Reclamation, concurred with the two recommendations. Based on the response, we consider the two recommendations resolved but not implemented. Accordingly, the unimplemented recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation, and no further response to the Office of Inspector General is required (see Appendix 4).

The legislation, as amended, creating the Office of Inspector General requires semiannual reporting to the Congress on all audit reports issued, actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.

We appreciate the cooperation of Bureau of Reclamation personnel during the conduct of our audit.

**ESTIMATED AND ACTUAL COSTS FOR
WATER REUSE PROJECT GRANT AGREEMENTS
AS OF SEPTEMBER 30, 1995**

<u>Project</u>	<u>Total Estimated Costs¹</u>	<u>Non-Federal Cost-Share¹</u>	<u>Federal Cost-Share¹</u>	<u>Federal Expenditures Through 9-30-95²</u>
San Jose Area Water Reclamation and Reuse ³	\$130,000,000	\$97,500,000	\$32,500,000	\$661,036
San Diego Area Water Reclamation ⁴	83,125,410	62,165,308	20,960,102	3,209,119
Los Angeles Area Water Reclamation and Reuse ⁵	256,362,000	193,521,500	62,840,500	14,728,429
San Gabriel Basin Demonstration ⁶	<u>74,750,000</u>	<u>56,062,500</u>	<u>18,687,500</u>	<u>6,788,103</u>
Total	<u>\$544,237,410</u>	<u>\$409,249,308</u>	<u>\$134,988,102</u>	<u>\$25,386,687</u>

¹Estimates are from the grant agreements.

²Amount includes \$377,861 of Bureau administrative costs and \$25,008,826 of reimbursements to grantees.

³As of September 30, 1995, this project, which is administered by the Bureau of Reclamation's Mid-Pacific Region, had one established grant agreement.

⁴As of September 30, 1995, this project, which is administered by the Bureau's Lower Colorado Region, had four established grant agreements.

⁵As of September 30, 1995, this project, which is administered by the Bureau's Lower Colorado Region, had two established grant agreements.

⁶As of September 30, 1995, this project, which is administered by the Bureau's Lower Colorado Region, had three established grant agreements.

**ESTIMATED COSTS FOR
WATER REUSE PROJECTS AUTHORIZED
THROUGH SEPTEMBER 30, 1995**

<u>Project</u>	<u>Total Estimated Costs¹</u>	<u>Non-Federal Cost-Share¹</u>	<u>Federal Cost-Share¹</u>
San Jose Area Water Reclamation and Reuse ²	\$480,959,000	\$371,000,000	\$109,959,000
San Diego Area Water Reclamation ³	691,245,000	518,255,000	172,990,000
Los Angeles Area Water Reclamation and Reuse ⁴	279,880,000	209,910,000	69,970,000
San Gabriel Basin Demonstration ⁵	<u>152,360,000</u>	<u>114,270,000</u>	<u>38,090,000</u>
Total	<u>\$1,604,444,000</u>	<u>\$1,213,435,000</u>	<u>\$391,009,000</u>

¹Estimates are from the Bureau of Reclamation's fiscal year 1997 budget justification except for the San Diego Project. The amounts for the San Diego Project were derived from the 1997 budget justification and from one grant agreement not included in the justification.

²As of September 30, 1995, this project, which is administered by the Bureau's Mid-Pacific Region, had one established grant agreement.

³As of September 30, 1995, this project, which is administered by the Bureau's Lower Colorado Region, had four established grant agreements.

⁴As of September 30, 1995, this project, which is administered by the Bureau's Lower Colorado Region, had two established grant agreements.

⁵As of September 30, 1995, this project, which is administered by the Bureau's Lower Colorado Region, had three established grant agreements.



United States Department of the Interior

BUREAU OF RECLAMATION
WASHINGTON, D.C. 20240

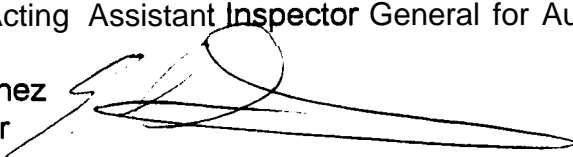
IN REPLY
REFER TO:

D-501 0
ADM-8.00

APR 10 1997

MEMORANDUM

To: Office of Inspector General
Attention: Acting Assistant Inspector General for Audits

From: Eluid L. Martinez
Commissioner 

Subject: Draft Survey Report on "Water Reuse Program Grants, Bureau of Reclamation" (W-IN-BOR-007-96)

The Bureau of Reclamation offers the following comments in response to the recommendations in the subject report:

Recommendation 1

Implement the 1994 "Procedures for Reviewing Cost-Share Agreement."

Response

Concur. Reclamation's regional offices will be re-instructed to implement these procedures. However, the procedures will be modified to clarify the applicability of the single-audit-act process required by Office of Management and Budget Circular A-128, "Audits of State and Local Governments." In addition, the "Reclamation Financial Assistance Handbook, Grants and Cooperative Agreements," will be modified to incorporate the cost-sharing policies and procedures identified in the 1994 "Procedures for Reviewing Cost-Share Agreements, as revised.

The responsible officials are the Director, Program Analysis Office, for revising and distributing the 1994 procedures and the Manager, Acquisition and Assistance Management Services, for revising the Financial Assistance Handbook. The target implementation date to complete all actions is December 31, 1997.

Recommendation 2

Follow up the single audit act process by:

- Obtaining copies of single audit reports from project grantees and following up on any identified reportable conditions or material weaknesses.
- Requesting copies of management letters and information on deficiencies communicated orally to the grantees.
- Obtaining information on corrective actions planned or taken.

Response

Concur. These requirements will be incorporated into the modifications discussed above; i.e., these modifications will instruct appropriate Reclamation officials to perform these tasks in fulfilling single audit responsibilities.

If you have any questions or require additional information, please contact Luis Maez at (303) 236-3289, extension 245.

cc: Assistant Secretary - Water and Science, Attention: Margaret Carpenter

STATUS OF SURVEY REPORT RECOMMENDATIONS

Finding/Recommendation Reference	Status	Action Required
1 and 2	Resolved; not implemented	No further reponse to the Office of Inspector General is required. The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

**ILLEGAL OR WASTEFUL ACTIVITIES
SHOULD BE REPORTED TO
THE OFFICE OF INSPECTOR GENERAL BY:**

Sending written documents to:

Calling:

Within the Continental United States

U.S. Department of the Interior
Office of Inspector General
1849 C Street, N.W.
Mail Stop 5341
Washington, D.C. 20240

Our 24-hour
Telephone HOTLINE
1-800-424-5081 or
(202) 208-5300

TDD for hearing impaired
(202) 208-2420 or
1-800-354-0996

Outside the Continental United States

Caribbean Region

U.S. Department of the Interior
Office of Inspector General
Eastern Division - Investigations
1550 Wilson Boulevard
Suite 410
Arlington, Virginia 22209

(703) 235-9221

North Pacific Region

U.S. Department of the Interior
Office of Inspector General
North Pacific Region
238 Archbishop F.C. Flores Street
Suite 807, PDN Building
Agana, Guam 96910

(700) 550-7428 or
COMM 9-011-671-472-7279

Toll Free Numbers:

1-800-424-5081

TDD 1-800-354-0996

FTS/Commercial Numbers:

(202) 208-5300

TDD (202) 208-2420

HOTLINE

1849 C Street, N.W.

Mail Stop 5341

Washington, D.C. 20240

